



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE TRANSPORTATION CABINET**

**Made as Part of the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY

Report of the Auditor of Public Accounts Audit of the Transportation Cabinet For the Year Ended June 30, 2001

BACKGROUND: The Single Audit Act of 1984, subsequent amendments, and corresponding regulations, requires the auditing of financial statements and the compliance and internal controls applicable to federal moneys received by the Commonwealth. To comply with these requirements, we audited internal controls and compliance at both the central and agency level. This summary is on our audit of one (1) organizational unit of the Commonwealth, the Transportation Cabinet.

EXPENDITURES: The Transportation Cabinet expended federal awards in the following manner:

- \$524,781,446 in cash from three (3) federal grantors

SUMMARY OF AUDITOR'S RESULTS:

Financial Statement Accounts

An outside-certified public accounting firm conducted the financial statement audit, which disclosed no reportable audit findings.

Federal Awards and Schedule of Expenditures of Federal Awards

Compliance: No instances of noncompliance

Internal Control Over Compliance: One (1) Reportable Condition, which was not considered a Material Weakness and two (2) Other Matter Comments.

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INTRODUCTION

**TRANSPORTATION CABINET
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2001**

Introduction

The Auditor of Public Accounts (APA), acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Schedule of Expenditures of Federal Awards

This report contains the Schedule of Expenditures of Federal Awards for the Transportation Cabinet. The Notes to the Schedule of Expenditures of Federal Awards provide more detailed information on certain aspects of the expenditures, such as the amount given to subrecipients.

Since not all state agencies use the Management Administrative Reporting System (MARS) Subsystems for Projects, the APA requested the Transportation Cabinet to prepare worksheets of federal financial assistance, both cash and noncash. The source of these worksheets included MARS, agency accounting systems, agency manual records, etc. The Transportation Cabinet was also asked to reconcile the worksheets to MARS and to federal grantor reports. These worksheets were compiled into the accompanying Schedule of Expenditures of Federal Awards.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three (3) sections:

- The Summary of Auditor's Results,
- Financial Statement Findings, and
- Federal Award Findings and Questioned Costs.

The audit finding number and the classification (as reportable or material or other matter) are provided as part of the audit opinion summary. Major programs audited are listed on the Summary of Auditor's Results. The Financial Statement Findings lists the audit findings related to the financial statements (required to be reported in accordance with *Government Auditing Standards*). The Federal Award Findings and Questioned Costs lists all findings related to federal awards. Generally, the state agency, CFDA number and program, federal agency, pass-through agency, and the compliance area to which the finding relates are presented. In both reports, reportable conditions and reportable instances of noncompliance are presented first, then material weaknesses and material instances of noncompliance, followed by other matters.

**TRANSPORTATION CABINET
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Summary Schedule of Prior Audit Findings

Audit findings reported in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2000, as well as any previous findings which have not been resolved, are reported in the Summary Schedule of Prior Audit Findings for the fiscal year ended June 30, 2001. If the APA determines the agency's Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding, a new audit finding is issued and reported in the Schedule of Findings and Questioned Costs.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was reportable, material, or other matters. The findings of each classification are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid or does not warrant further action.

Audit Approach

Our audit was conducted in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, *Government Auditing Standards* (also referred to as the Yellow Book), and auditing standards generally accepted in the United States of America. The scope of the statewide single audit for the year ended June 30, 2001 included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with auditing standards generally accepted in the United States of America;
- An audit of supplementary Schedule of Expenditures of Federal Awards in accordance with auditing standards generally accepted in the United States of America;
- An audit of the internal control applicable to the Transportation Cabinet, to the extent necessary to consider and test the internal accounting and administrative control systems as required; and
- A selection and testing of transactions and records relating to each major program to obtain reasonable assurance that the Transportation Cabinet administers its major programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth's general-purpose financial statements.

The APA conducted the audit of internal controls, focusing on the following objective:

- Determining if the Transportation Cabinet has internal controls to provide reasonable assurance that it is managing the major programs in compliance with applicable laws and regulations.

**TRANSPORTATION CABINET
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

List of Abbreviations/Acronyms Used in This Report

APA	Auditor of Public Accounts
CFDA	Catalog of Federal Domestic Assistance
Commonwealth	Commonwealth of Kentucky
CPA	Certified Public Accountant
FHWA	Federal Highway Administration
FY	Fiscal Year
KRS	Kentucky Revised Statutes
LLP	Limited Liability Partnership
MARS	Management Administrative Reporting System
MRDB	Management Reporting Database
OMB	Office of Management and Budget
PBU	Program Budget Unit
SEFA	Schedule of Expenditures of Federal Awards
TC	Transportation Cabinet
U.S.	United States

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**TRANSPORTATION CABINET
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2001**

State Agency Federal Grantor CFDA #/ Program Title	Expenditures	
	Cash	Noncash
<u>U.S. Department of Transportation</u>		
Direct Programs:		
20.106 Airport Improvement Program	\$	9,000
20.205 Highway Planning and Construction (Note 3 and 4)		511,179,709
20.218 National Motor Carrier Safety (Note 5)		3,952,420
20.505 Federal Transit-Metropolitan Planning Grants (Note 5)		328,197
20.507 Federal Transit - Formula Grants (Note 5)		2,432,977
20.509 Formula Grants for Other Than Urbanized Areas (Note 5)		5,424,884
20.513 Capital Assistance Program for Elderly Persons and Persons With Disabilities (Note 5)		1,438,659
20.600 State and Community Highway Safety (Note 2)		10,000
<u>U.S. Department of Energy</u>		
Passed Through From Natural Resources and Environmental Protection Cabinet:		
81.041 State Energy Program (Note 2)		5,600
<u>U.S. Federal Emergency Management Agency</u>		
Passed Through From Department of Military Affairs:		
83.544 Public Assistance Grants (Note 2 and 6)		0
TOTAL TRANSPORTATION CABINET	\$	524,781,446

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**TRANSPORTATION CABINET
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001**

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Purpose of the Schedule - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*.

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133. As defined in the Circular, federal financial assistance “. . . means assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals . . .” It includes awards received directly from federal agencies, or indirectly through other units of state and local governments. Accordingly, the accompanying schedule includes the cash federal financial assistance programs; the Transportation Cabinet had no noncash federal financial assistance programs for the year ended June 30, 2001.

Reporting Entity - The accompanying schedule includes all federal financial assistance programs administered by the Transportation Cabinet. The Transportation Cabinet is an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010 and is included in the Commonwealth entity for financial reporting purposes.

Basis of Accounting - The cash expenditures on the accompanying schedule are presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, “. . . for a period of thirty days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth’s general-purpose financial statements are presented on the modified accrual or accrual basis of accounting, depending on the fund type. Therefore, the Schedule of Expenditures of Federal Awards may not be directly traceable to the general- purpose financial statements in all cases.

**TRANSPORTATION CABINET
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Inter-Agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one (1) state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Transportation Cabinet's schedule:

(a) Federal moneys may be received by one (1) state agency (primary state agency - recipient) and passed through to another state agency (secondary state agency - subrecipient) where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported in the schedule as follows:

- Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
- Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because the schedule excludes federal financial assistance related to state universities, when a state agency passes federal money to a state university, this is reported in the schedule as an expenditure of that state agency.

(b) Federal moneys received by the Transportation Cabinet and used to purchase goods or services from another state agency are reported in the schedule as an expenditure.

Note 2 - Passed Through from Other Agencies

CFDA #	Grant Name	Amount	Passed Through From
83.544	Public Assistance Grants	\$ 0	Military Affairs
81.041	State Energy Program	2,332	Natural Resources

**TRANSPORTATION CABINET
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Note 3 - Type A Program

Under the provisions of OMB Circular A-133, a Type A program for the Commonwealth is any program for which total expenditures of federal awards exceeded \$15 million for FY 01. Clusters are a group of closely related programs sharing common compliance requirements. A cluster of programs shall be considered as one (1) program for determining Type A programs.

The Transportation Cabinet had one cash program that met the Type A major program definition for the year ended June 30, 2001:

<u>CFDA #</u>	<u>Program Title</u>	<u>Expenditures</u>
20.205	Highway Planning and Construction	\$511,179,709

Note 4 - Highway Planning and Construction Program (CDFA # 20.205)

The information reported for this program represents the activity of all open projects during the year ended June 30, 2001. These projects were funded from several apportionments. Apportionments refer to a federal statutorily prescribed division or assignment of funds. The expenditures reflected on the Schedule of Expenditures of Federal Awards include those for advance construction projects which are not yet under agreements with the Federal Highway Administration.

Program Income - The Highway Planning and Construction Program earned program income of \$584,606 in the year ended June 30, 2001. This income was earned in the right-of-way phase through the sale and rental of real property. Income earned in this manner was classified as a negative expenditure, resulting in a reduction to federal expenditures for the current year.

Refunds - Expenditures for the Highway Planning and Construction Program were shown net of any refunds, resulting from a reimbursement of prior or current year expenditures. Refunds totaled \$3,411,143 for the year ended June 30, 2001.

**TRANSPORTATION CABINET
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Note 5 - Subrecipient Activity

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. The following list summarizes the amount of federal funds sent to subrecipients.

CFDA #	Federal Program Name	Amount Sent
20.218	National Motor Carrier Safety	\$ 106,016
20.505	Federal Transit - Metropolitan Planning Grants	328,197
20.507	Federal Transit - Formula Grants	2,432,977
20.509	Formula Grants for Other Than Urbanized Areas	5,093,691
20.513	Capital Assistance Program for Elderly Persons and Persons With Disabilities	1,405,197
	Total	<u>\$ 9,366,078</u>

Note 6 - Zero Expenditure Activity

This program had no expenditures during the year ended June 30, 2001. It had activity other than expenditures.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Report on Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133 and on the
Schedule of Expenditures of Federal Awards

To the People of Kentucky
Honorable Paul E. Patton, Governor
James C. Codell, III, Secretary
Transportation Cabinet

Compliance

As part of the Statewide Single Audit of the Commonwealth of Kentucky, we have audited the compliance of the Transportation Cabinet, an organizational unit of the Commonwealth as defined by KRS 12.010, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The Transportation Cabinet's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Transportation Cabinet's management. Our responsibility is to express an opinion on the Transportation Cabinet's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Transportation Cabinet's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Transportation Cabinet's compliance with those requirements.

In our opinion, the Transportation Cabinet complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Report on Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133 and on the
Schedule of Expenditures of Federal Awards
(Continued)

Internal Control Over Compliance

The management of the Transportation Cabinet is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Transportation Cabinet's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance did not include certain controls relating to the Transportation Cabinet. The consideration of these controls was made by other auditors, whose reports thereon have been furnished to us, and our report presented herein, insofar as it relates to the Revenue Cycle, Purchases/Disbursements, and Payroll Cycle, is based on the reports of the other auditors.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Transportation Cabinet's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 01-TC-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable condition described above is not a material weakness. However, we noted other matters involving internal control over compliance, which we have described to management of the Transportation Cabinet in the accompanying schedule of findings and questioned costs of this report.

Report on Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133 and on the
Schedule of Expenditures of Federal Awards
(Continued)

Schedule of Expenditures of Federal Awards

We have audited the Commonwealth's general-purpose financial statements as of and for the year ended June 30, 2001, and have issued our report thereon dated December 21, 2001. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards of the Transportation Cabinet is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements.

The Commonwealth's general-purpose financial statements are prepared on an accrual/modified accrual basis of accounting. However, the schedule of expenditures of federal awards of the Transportation Cabinet is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the schedule of expenditures of federal awards is not intended to present the expenditures of federal awards in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the schedule of expenditures of federal awards of the Transportation Cabinet is fairly stated, in all material respects, in relation to the Commonwealth's general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Schedule of Expenditures of Federal Awards
December 21, 2001

April 30, 2002

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statement Accounts

Financial Statement Accounts: We issued an unqualified opinion on the Commonwealth's general-purpose financial statements as of and for the year ended June 30, 2001. The Transportation Cabinet was not included in our audit procedures of the general-purpose financial statements. The Transportation Cabinet was audited by the outside CPA firm of Potter & Company, LLP, whose report was furnished to us, of which the results were included in the general-purpose financial statements.

Internal Control Over Financial Reporting: The Transportation Cabinet's financial statement audit was performed by the outside CPA firm of Potter & Company, LLP.

Compliance: The Transportation Cabinet's financial statement audit was performed by the outside CPA firm of Potter & Company, LLP.

Federal Awards and Schedule of Expenditures of Federal Awards

Compliance: We issued an unqualified opinion on the Transportation Cabinet's compliance with the requirements applicable to its major program.

Internal Control Over Compliance: Our consideration of the Transportation Cabinet's internal control over compliance disclosed one (1) reportable condition. We do not believe that this condition constitutes a material weakness. In addition, our consideration of the Transportation Cabinet's internal control over compliance disclosed two (2) other matter conditions.

Schedule of Expenditures of Federal Awards: We have issued a qualified opinion on the Transportation Cabinet's Schedule of Expenditures of Federal Awards because the schedule was presented on a basis of accounting that was not in conformance with accounting principles generally accepted in the United States of America as described in Note 1 of the schedule. The opinion was issued in relation to the Commonwealth's general-purpose financial statements taken as a whole.

Identification of Major Program Audited

OMB Circular A-133 defines a major program as "a Federal program determined by the auditor to be a major program in accordance with section __.520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section __.215 (c)." Section __.520 states, "[t]he auditor shall use a risk-based approach to determine which Federal programs are major programs." The following is a list of Type A programs audited:

**TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Identification of Major Program Audited (Continued)

CFDA #	Program Title	Expenditures
20.205	Highway Planning and Construction	\$511,179,709

The following is a list of Type B programs audited as major programs:

CFDA #	Program Title	Expenditures
20.509	Formula Grants for Other Than Urbanized Areas	\$5,424,884

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B Programs was \$15,000,000.

Auditee Risk

The Commonwealth did not qualify as a low-risk auditee.

SECTION 2 - FINANCIAL STATEMENT FINDINGS

There were no reportable findings from Transportation Cabinet's financial statement audit conducted by Potter & Company, LLP.

**TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

*Reportable Conditions Relating to Internal Control and/or Reportable
Instances of Noncompliance:*

**FINDING 01-TC-1: The Transportation Cabinet Should Strengthen Controls To
Ensure Accurate Reporting On The Schedule Of Expenditures Of Federal Awards**

State Agency: Transportation Cabinet

Federal Program: All Federal Assistance Programs

Federal Agency: U.S. Department of Energy and
U.S. Department of Transportation

Pass-Through Agency: None

Compliance Area: None (Internal Controls)

Amount of Questioned Costs: None

During the audit of the Transportation Cabinet's SEFA, the following were noted:

- The SEFA was not reconciled to the Management Reporting Database (MRDB) prior to being submitted to the APA
- Procedures were not in place to ensure that all pass-throughs were accurately reported on the SEFA or in the MRDB

There were similar problems noted in the audit of the Transportation Cabinet's SEFA in the FY 00 audit as well, and these were reported to the Transportation Cabinet as an other matter comment. As a result of that comment, Transportation stated in the future, the supervisor of the financial reporting section would be in charge of preparing the reconciliation that would be reviewed and approved by the general accounting branch. We have not seen improvement in the FY 01 SEFA.

When the SEFA is not reconciled to MRDB, there could be several unfavorable results:

- It leaves open the possibility of incorrect information being reported in MRDB and/or incorrect or inaccurate information presented in the SEFA
- Information that should be presented on the SEFA may be omitted; pass-throughs of federal money may be omitted
- Many errors could go undetected until audit procedures are performed, thus, increasing the work of the auditors and agency personnel due to the need for increased audit procedures and the need for numerous revisions and corrections
- The information presented in MRDB could be reported in an inconsistent manner, thus making reconciliation procedures difficult to perform

**TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-TC-1: The Transportation Cabinet Should Strengthen Controls To Ensure Accurate Reporting On The Schedule Of Expenditures Of Federal Awards (Continued)

- The SEFA may not correspond with other agency schedules reporting pass-throughs to and from the Transportation Cabinet
- Pass-throughs may not be differentiated from other receipts and expenditures

APA SEFA instructions state:

Information contained in the schedule should be reconciled to the Management Reporting Database (MRDB), an extract of the Management Administrative Reporting System (MARS) information, with documentation of the reconciliation retained. This will ensure that the schedule, although based on agency records both manual and automated, will agree to the official accounting records of the Commonwealth, which will have been agreed to the Commonwealth's general-purpose financial statements.

If your agency does not operate through MARS, the schedule should be reconciled to the agency accounting system supporting your agency's financial statements.

This reconciliation should encompass both receipts and expenditures, and should be done on a grant-by-grant basis, if possible.

The Transportation Cabinet representation letter dated November 13, 2001, asserts, "We have reconciled information contained in the Schedule of Expenditures of Federal Awards - cash programs to the Management Administrative Reporting System and Management Reporting Database."

APA instructions also state:

Passed through from other agencies (previously called transfers-in) (including revenue redistributions) should consist of federal moneys received from other federal grants (either from inside the agency or from another state agency) to fund federal expenditures. When an agency is a subrecipient of another state agency, those moneys received should be shown in this column. If you are not able to determine if you are considered a subrecipient or a vendor, it may be necessary to contact another state agency to determine their treatment of the transaction(s). All amounts in this column must be explained in the notes.

**TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-TC-1: The Transportation Cabinet Should Strengthen Controls To Ensure Accurate Reporting On The Schedule Of Expenditures Of Federal Awards (Continued)

Passed through to other agencies (previously called transfers-out) (including revenue redistributions) should consist of moneys distributed from the grant to other federal grantors (either to inside the agency or to another state agency) to fund federal expenditures. Passed through amounts between grants with the same agency must agree. Payments made to state agency subrecipients, except to state universities, would be shown in this column. Report federal moneys to a state university as an expenditure in Column H. All amounts shown in this column must be explained in the notes.

Recommendation

We recommend the Transportation Cabinet reconcile the SEFA to MRDB prior to being submitted to the APA to ensure an accurate and complete schedule is submitted and to ensure the information reported in MRDB is accurate, complete, and presented in a consistent manner. We also recommend the Transportation Cabinet implement procedures to ensure all pass-throughs are accurately reported on the SEFA and will allow pass-throughs to be differentiated from other receipts and expenditures in MRDB/MARS. Further, we recommend the Transportation Cabinet staff charge grant expenditures to correct CFDA numbers in MARS.

Management's Response and Corrective Action Plan

Prior to the submission of the SEFA, we reconciled to MRDB based on PBU [Program Budget Unit]. The APA wanted us to reconcile the SEFA by CFDA #, which we subsequently did. Prior to submission of the FY 02 SEFA to the APA, the section supervisor will add to her procedures a reconciliation by CFDA #.

The pass-through in question was for \$2,332 from Natural Resources. Our discussions with the APA led us to believe that this matter had been dropped due to immateriality. However, to ensure that does not occur in the future, we have assigned our Internal Policy Analyst II to immediately start performing a monthly review and analysis of all federal receipts and transfers. This on-going review will occur each month after hard close and should help us identify any moneys received that are pass-throughs. Once identified we will contact the paying agency and determine proper recording.

**TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-TC-1: The Transportation Cabinet Should Strengthen Controls To Ensure Accurate Reporting On The Schedule Of Expenditures Of Federal Awards (Continued)

Management's Response and Corrective Action Plan (Continued)

When we perform the reconciliation noted above, this procedure should detect any expenditures not charged to a CFDA #. Also, we will immediately instruct the Federal Billing Section Branch Manager to make adding the CFDA # part of their process.

Auditor's Reply

During the performance of audit procedures regarding the receipt and expenditure reconciliations for the SEFA, it was noted that there were instances in which several CFDA numbers share a single PBU. It was also noted that a CFDA number may contain several different PBUs within that single CFDA number. The reconciliation performed by the auditors was based on PBU due to problems noted in the prior and current audits with the coding of CFDA numbers in MARS. There were errors detected when we attempted to reconcile by PBU. Reconciling by PBU only, will not provide an accurate presentation of the true federal receipts and expenditures incurred by specific federal programs. For example, when several CFDA numbers show a single PBU, one program may overspend and this problem would go undetected. This occurs because another program may underexpend and it would balance out. Therefore the accuracy of the individual CFDA expenditure amounts is questioned.

Secondly, the issue regarding Natural Resources was dropped due to the immateriality of the amount only and no changes were recommended for the agency level SEFA. However, a control weakness still existed. Strong internal controls were not present to ensure that all pass-throughs were reported.

**TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating to Internal Control and/or Compliance:

FINDING 01-TC-2: The Right-of-Way Division Should Ensure Payments Are Properly Approved Prior To Disbursement Of Funds

State Agency: Transportation Cabinet

Federal Program: 20.205, 23.003 - Highway Planning and Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: None

Compliance Area: Activities Allowed or Unallowed, Allowable Costs/Cost Principal, and Relocation Assistance

Amount of Questioned Costs: None

During our audit testing of relocation expenditures, the following was noted:

- Procedures are inadequate to ensure that “Payment Summaries” are authorized by signature of a central office supervisor prior to payment being made to displace. Specifically, in 22 relocation expenditures examined, one (1) payment was made to a displace without first obtaining a signature of a central office supervisor on the “Payment Summary” to authorize the payment.

Without proper review and authorization of relocation payments, disbursements may be made for costs or activities that are unallowed for the Highway Planning and Construction program.

An adequate internal control system over disbursements requires that payments be reviewed and authorized by appropriate personnel.

Recommendation

We recommend that the right-of-way division remind supervisors and employees initiating or processing payments to be sure that all applicable signatures or approvals have been obtained and documented in accordance with the division’s procedures prior to disbursement of funds, reducing the likelihood of the disbursement of funds for costs or activities unallowed.

**TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-TC-2: The Right-of-Way Division Should Ensure Payments Are Properly Approved Prior To Disbursement Of Funds (Continued)

Management's Response and Corrective Action Plan

The Division of Right of Way has adequate policy to ensure payments are appropriately approved prior to processing for payment. This one incident was an oversight on the part of someone. E-mail to all supervisors and employees who initiate the processing of payments was issued March 21, 2002. The e-mail stipulates that employees are not to process payments unless supervisors have signed all required documents giving approval for the payments.

FINDING 01-TC-3: The Transportation Cabinet Should Review The Financial Status Report Prior To Submission To The Federal Highway Administration

State Agency: Transportation Cabinet

Federal Program: 20.205, 23.003 - Highway Planning and Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: None

Compliance Area: Reporting

Amount of Questioned Costs: None

During our testing of the Annual FHWA Statistics Report, we noted that procedures are inadequate to ensure that amounts reported to FHWA are reviewed for accuracy. Specifically, the payment total reported for "Parcels Acquired by Condemnation" was understated by \$4,499,165.

Without proper review, payment totals reported to the FHWA may be misstated.

An adequate internal control system over reporting requires that amounts reported be reviewed for accuracy.

Recommendation

The Right-of-Way Division should implement procedures to ensure that payment totals reported in the Annual FHWA Statistics Report be reviewed for accuracy.

**TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-TC-3: The Transportation Cabinet Should Review The Financial Status Report Prior To Submission To The Federal Highway Administration (Continued)

Management's Response and Corrective Action Plan

Each October the Division of Accounts has been requested to provide a list of federal expenditures with certain Activity Codes for the previous fiscal year. The total amount of expenditures for each activity is added together to provide the amount that is reflected in the FHWA Annual Statistical Report. The recent Audit of the FHWA Report brought to our attention that the expenditures provided by the Division of Accounts was for the State Fiscal Year rather than the Federal Fiscal Year.

The Division is reviewing its processes with the intent of developing a procedure for maintaining a file of our expenditures to make the preparation of the annual report less complex and more accurate.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**TRANSPORTATION CABINET
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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Reportable Conditions

(1) Audit findings that have been fully corrected:

FY 00	99-TC-1	The Division Of Right Of Way Should File All Real Property Deeds In The Project Parcel Files Timely	20.205	\$0	Resolved during FY 01.
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(2) Audit findings not corrected or partially corrected:

There were no findings for this section.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this section.

(4) Audit finding is no longer valid or does not warrant further action:

There were no findings for this section.

Other Matters

(1) Audit findings that have been fully corrected:

FY 98	98-TC-4	Utility Inspections Should Be Conducted And Documented In The Utility Files	20.205	0	
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(2) Audit findings not corrected or partially corrected:

FY 00	00-TC-1	The Transportation Cabinet Should Strengthen Controls In Preparing The Schedule Of Expenditures Of Federal Awards	20.205	0	Corrective action plan was not effective.
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(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this section.

(4) Audit finding is no longer valid or does not warrant further action:

There were no findings for this section.